Chapter-One

Introduction

Service sector in India is playing a very vital role in the Indian economy and it’s GDP. Insurance happens to be a major opportunity for the service sector in India. It is one of the businesses which is growing at the rate of 15-20 % annually; and, presently is of the order of Rs 450 billion. Together with banking services, it adds up to about 7% to the country’s GDP. Gross premium collection is nearly 2% of the GDP and the funds available with LIC for investments are 8% of the GDP. Yet, nearly 80% of the Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And, this part of the population is also subject to weak social security and pension systems. This alone is an indicator that growth potential for the insurance sector is immense. A well-developed and evolving insurance sector is needed for economic development of the country as it provides long term funds for infrastructure development and at the same time it strengthens the risks taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion US dollar. The insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the
country. The growing number of the wealthy as well as aging Indian middle class is set to offer a strong business potential for the country’s untapped life insurance market. Insurance is a federal subject in India. There are two legislations that govern the sector: (1) The Insurance Act, 1938 and (2) the IRDA Act 1999. The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries. As the twentieth century has come to a close and we have moved into the third millennium, we can see many developments and changes taking place around us with all the industries and firms within each.

The history of insurance is probably as old as the history of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They, too, sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era past few centuries yet, its beginning dates back almost 6,000 years.
Although, insurance has existed for thousands of years, it is only over the last 100 years or so that the insurance industry has really taken shape into the form that we recognize it today. In order to investigate the growth of the insurance industry, this insurance industry research paper will focus on the insurance companies as they existed in the early 1900's and as they existed 100 years later. Around 1890, the biggest issue that plagued most insurance companies was that they were relatively new. Certainly, insurers such as Lloyd’s of London had been around for nearly 200 years and insurance had been established in the United States for almost 150 years by that time. However, the insurance industry was just getting established outside of very small insurers. As a result many of these organizations had difficulty raising the capital needed to be able to effectively cover their clients if the need arose. For example, the Fireman’s Fund had been in existence for almost 30 years by 1890 but they had only managed to raise $10,00,000 in capital by that time (Fireman’s Fund). Although, this appears to be a significant amount of capital, it should be recognized that Fireman’s Fund was one of the largest insurers in the United States at that time. In 1890 most insurers tended to focus only on a single market, which limited their potentials to some degrees. For instance, the Fireman’s Fund only provided fire insurance (Fireman’s Fund) while Lloyd’s of London strictly provided maritime insurance. Around this time, insurers expanded into other markets to allow
further growth; however, in 1890, insurers tended to focus only on a single market for the most part.

**History of Life Insurance:**

Life insurance made its first appearance in England in the sixteen century, the first recorded evidence in England being the policy on life of William Gybbons on 18th June 1653. Even before this date, annuities had become quite common in England and marine insurance had, in fact, made its appearance three thousand years ago. The life insurance developed at the ‘Exchange Alley’. The first registered life insurance office in England was the Hand-in-Hand Society established in 1696. The famous Amicable Society for a perpetual Assurance office started its operation since 1706. Life insurance did not prosper in the United States during the 18th century, because of serious fluctuations in death rate, but soon after the year 1800, some active interests began to be shown in this enterprise because of application of the level premium plan which had, by then, been in operation in the UK for more than a generation. In India, some Europeans started the first life insurance company in the Bengal Presidency, viz Orient Life Assurance Company in 1818. The year 1870 was a year of landmark in the history of the Indian insurance separating the early period of pioneering attempts at life insurance from the subsequent period of steady
development after establishment of the Indian Life Office, viz the Bombay Mutual Life Assurance Society in 1870. The next important life insurance office was the Oriental Government Society Life Assurance Co. Ltd. which started its operation since 1874. Since then several offices developed in India.\(^1\)

The life insurance in modern form came to India from England in the year 1818. The Oriental Life Insurance Company started by the Europeans in Calcutta was the first life insurance company on the Indian Soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of the European community. But, the Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, the foreign life insurance companies started insuring the Indian lives. But, the Indian lives were being treated as the sub-standard lives and heavy extra premiums were being charged on them. The Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered the Indian lives at normal rates. Starting as the Indian enterprises with highly patriotic motives, the insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of the Indian society. The Bharat Insurance Company (1896) was also one of such
companies inspired by nationalism. The Swadeshi Movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, the National Indian and the National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, the Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, the General Assurance and the Swadeshi Life (later the Bombay Life) were some of the companies established during the same period. Prior to 1912, India had no legislations to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and the periodical valuations of the companies should be certified by an actuary. But, the Act discriminated between the foreign and the Indian companies on many accounts, putting the Indian companies at a disadvantage in insurance business.

The first two decades of the twentieth century saw lots of growth of Life Insurance. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of the insurance companies, many financially unsound concerns were also floated which failed miserably. The
Insurance Act, 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over the insurance business. The demand for nationalization of the life insurance industry was made repeatedly in the past; but, it gathered momentum only in 1944, when a bill to amend the Life Insurance Act 1938, was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that the life insurance business in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident were operating in India at the time of the nationalization. Nationalization was accomplished in two stages: initially, the management of the companies was taken over by means of an Ordinance; and later, the ownership, too, by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on the 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost. The LIC of India had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office, in the year 1956. Since the life insurance contracts are long term contracts and during the currency of the policy it requires a variety of services, a need
was felt in the later years to expand the operations and to place a branch office at each district headquarters. Re-organization of the LIC of India took place and large numbers of new branch offices were opened. As a result of the re-organization, servicing functions were transferred to the branches; and, the branches were made accounting units. It worked wonders for performance of the corporation. It may be seen that from about Rs. 200 crore of new business in 1957, the Corporation crossed Rs. 1,000 crore in the year 1969-70, and it took another 10 years for the LIC to cross Rs. 2,000 crore mark of new business. But, with reorganization happening in the early eighties, by 1985-86 the LIC had already crossed Rs. 7,000 crore sum assured on new policies. Today the LIC functions with 2,048 fully computerized branch offices, 100 divisional offices, 7 zonal offices and the Corporate office. The LIC’s wide area network covers 100 divisional offices and connects.

**Types of Insurance Companies**

The Oriental Life Insurance Company, the first corporate entity in India offering life insurance coverage, was established in 1818 by Bipin Behari Dasgupta and others. Europeans in India were its primary target market, and it charged Indians heftier premiums. The Bombay Mutual Life Assurance Society, formed in 1870, was the first native
insurance provider. Other insurance companies established in the pre-independence era included

- Bharat Insurance Company (1896)
- United India (1906)
- National Indian (1906)
- National Insurance (1906)
- Co-operative Assurance (1906)
- Hindustan Co-operatives (1907)
- Indian Mercantile
- General Assurance
- Swadeshi Life (later Bombay Life)

The Life Insurance Act and the Provident Fund Act were passed in 1912, providing the first regulatory mechanisms in the life insurance industry. The Indian Insurance Companies Act of 1928 authorized the government to obtain statistical information from the companies operating in both life and non-life insurance areas. The subsequent Insurance Act of 1938 brought stricter state control over an industry that had seen several financially unsound ventures fail. A bill was also introduced in the Legislative Assembly in 1944 to nationalize the insurance industry.
Concept of Insurance:

The business of insurance is related to protection of the economic values of assets. Every asset has a value. The asset would have been created through the efforts of the owner. The asset is valuable to the owner, because he/she expects to get some benefits from it to meet some of his/her needs. In the case of a factory or a cow, the product generated by is sold and income generated. In the case of a motor car, it provides comfort and convenience in transportation. There is no direct income.

Every asset is expected to last for a certain period of time during which it will perform. After that, the benefit may not be available. There is a life-time for a machine in a factory or a cow or a motor car. None of them will last for ever. The owner is aware of this and he/she can so manage his/her affairs that by the end of that period or time, a substitute is made available. Thus, he/she makes sure that the value or income is not lost. However, the asset may get lost earlier. An accident or some another unfortunate event may destroy it or make it non-functional. In that case, the owner and those deriving benefits there from would be deprived of the benefits and the planned substitute would not have been ready. There is an adverse or unpleasant situation. Insurance is a mechanism that helps to reduce the effect of such adverse situations.\(^3\)
1. Prof. Hansel says, “Insurance is a social device providing financial compensation for the effects of misfortune, the payment being made form accumulated contributions of all parties participating in the scheme.”

2. Adv. Justices Lorenz says, “Insurance is a contract by which one party, in consideration a price paid to him adequate to the risk, becomes security to the other party that he shall not suffer lost damages on prejudice by the happening of the perils specified to certain things which way be exposed to him.”

Meaning of Life Insurance:

Life insurance is a contract for payment of a sum of money to the person assured on the happening of the event insured against. Usually, the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or on unfortunate death, if it occurs earlier. Among other things, the contract also provides for the payment of premium periodically to the corporation by the assured. Life insurance is universally acknowledged to be an institution which eliminates risk, substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of the death of the breadwinner. By and large, life insurance is a partial solution to financial uncertainties caused by untimely death.
Life insurance, in short, is concerned with two hazards that stand across the life path of every person that of dying prematurely leaving a dependent family to fend for itself and that of living too old without visible means of support.\(^\text{6}\)

The Insurance Act 1938, stated “Life insurance is a business of effecting contract of insurance upon the human life including any contract where by the payment of money is assured on death except death by accident or the happening of any contingency dependent upon human life and any contract which is the subject to the payment of premium for a term dependent on human life.”\(^\text{7}\)

Life insurance is different from other insurance in the sense that, here, the subject matter of insurance is life of human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of a certain period. At present, life insurance enjoys maximum scope; because, the life is the most important property of the society or an individual. Each and every person requires insurance. This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. Under personal insurance, a payment is made at the accident. The insurance is not only a protection; but, also a sort of investment. Because, a certain sum is returnable to the family of
insured at the time of his/her death or to him/her at the expiry of a period. The business of life insurance is wholly done by the Life Insurance Corporation of India.\(^8\)

**Significance of Insurance:**

Life insurance is a contract by which one can protect oneself against specific uncertainties by paying a premium over a period since each person is faced with numerous risks --- falling health, financial losses, accident and even fatalities.

**Protection:**

A person needs life insurance to be there and protect the people he/she loves; making sure that his/her family has a means to look after itself after he/she is no more. It is thoughtful business concept designed to protect the economic value of a human life for the benefit of those financially dependent on him/her.

**Retirement:**

Life insurance makes sure that one has regular income after he/she retires and helps him/her maintain his/her standard of living. It can ensure that his/her post-retirement years are spent in peace and comfort.
Savings and Investments:

Life insurance is a means to save and invest. The periodic premiums are like savings and one is assured of a lump sum amount on maturity. A policy can come in handy at the time of his/her child’s education or marriages. Besides, it can be used as supplemental retirement income.

Tax Benefits:

Life insurance is one of the best tax saving options today, the tax can be saved twice on a life insurance policy once, when people pay the premium and once when they receive maturity benefits. Money saved is money earned.

Myths of Insurance:

1) Insurance is just meant for saving tax.
2) Insurance does not give good returns.
3) Insurance products are not flexible.

Types of Life Insurance:

There are various types of policies and schemes prepared to suit the need of different individual. A person can avail the one that satisfies his/her budget and need. Life insurance can be broadly divided into 3 types:

I Term life insurance
II Whole life insurance
III Universal life insurance
I. Term Life Insurance:

In this type of life insurance, financial coverage is provided for a certain period of time according to the terms of the policy. When the term period gets over, the policy holder can either end the policy or continue it by paying annual premiums. Term life insurance does not provide permanent coverage but is good for those who want temporary protection on a limited budget. If one is thinking of availing a short term life insurance policy to pay off loans, term life insurance policy is the right option. It can be renewed according to the policy holders wish and need.

II. Whole Life Insurance:

In this type of life insurance, the insured is provided with permanent financial protection. It is a long term where the policy holder needs to pay premiums annually. There are various types of whole life insurance that individuals can avail in accordance to their needs such as Non-participating, Participating, Indeterminate premium, Economic, Limited Pay, Single Premium and Interest sensitive. But, all life insurance companies may not offer all types of the whole insurance policies stated above.
III. Universal Life Insurance:

This is a permanent life insurance plan which has flexible terms. It allows some of the benefits such as death benefits, saving benefits to be reviewed and changed according to the policy holders’ need. In this policy, the insured enjoys not only benefits of term life insurance but also cash value (premiums that are above the cost insurance are credited as cash value). One can choose from the 3 types of universal life insurances, i.e. single premium, fixed premium and flexible premium, in accordance to the requirement.

**Single premium universal life insurance:** In the single premium universal life insurance, the policy holder pays a big premium amount at the beginning of the policy. The policy remains active as long as the cost of insurance (COI) is covered by the initially paid amount.

**Fixed premium universal life insurance:** In the fixed premium universal life insurance, the policy holder makes monthly or yearly payment of a fixed amount for a certain period of time.

**Flexible premium universal life insurance:** In this option of universal life insurance, the policy holder can pay monthly premiums of his choice as long as the minimum payment amount is covered.
Life insurance is therefore an essential step towards safeguarding the future of the family. People should understand how these life insurance policies work and avail the one that seems suitable to their needs. They should take the help of a good insurance agent who will help with details of the policies available.

**Significance of Life Insurance:**

**Provide Protection:** The primary function of insurance is to provide protection against future risks, accidents and uncertainties. Insurance cannot check the happening of risks, but can certainly provide for the losses from the risks. Insurance is actually a protection against the economic losses, by sharing the risks with others.

**Collective bearing of risk:** Insurance is an instrument to share the financial loss of few among many others. Insurance is a mean by which few losses are shared among larger number of people. All the insured contribute the premiums towards a fund and out of which the persons exposed to a particular risk is paid.

**Assessment of risks:** Insurance determines the probable volume of a risk by evaluating various factors that give rise to the risk. Risk is the basis for determining the premium rate also.
Provide certainty: Insurance is a device, which helps to change from uncertainty to certainty. Insurance is a device whereby the uncertain risks may be covered with a certain provision.

Small capital to cover larger risk: Insurance relieves the businessmen from the insecurity in investments, by paying small amount of premium against larger risks and uncertainty.

Contributes towards development of industries: Insurance provides development opportunity to those larger industries having more risks in their initiation. Even the financial institutions may be prepared to give credit to sick industrial units which have insured their assets including plant and machinery.

Means of savings and investment: Insurance is a compulsory way of savings and it restricts the unnecessary expenses by the insured. For the purpose of availing income-tax exemptions also, people invest in insurance.

Source of earning foreign exchange: Insurance is an international business. The country can earn foreign exchange by way of issue of marine insurance policies and various other ways.
**Risk free trade:** Insurance promotes exports insurance, which makes the foreign trade risk free with the help of different types of policies under marine insurance cover.

**Importance of Life Insurance:**

1. **Protection against untimely death:** Life insurance provides protection to the dependents of the life insured and the family of the assured in case of his untimely death. The dependents or family members get a fixed sum of money in case of death of the assured.

2. **Saving for old age:** After retirement, the earning capacity of a person reduces. Life insurance enables a person to enjoy peace of mind and a sense of security in his/her old age.

3. **Promotion of savings:** Life insurance encourages people to save money compulsorily. When life policy is taken, the assured is to pay premiums regularly to keep the policy in force and he/she cannot get back the premiums, only surrender value can be returned to him. In case of surrender of a policy, the policyholder gets the surrendered value only after the expiry of duration of the policy.
4. **Initiates investments:** Life Insurance Corporation encourages and mobilizes the public savings and channelizes the same in various investments for the economic development of the country. Life insurance is an important tool for the mobilization and investment of small savings.

5. **Credit worthiness:** Life insurance policy can be used as a security to raise loans. It improves the credit worthiness of business.

6. **Social Security:** Life insurance is important for the society as a whole also. Life insurance enables a person to provide for education and marriage of children and for construction of house. It helps a person to make a financial base for future.

7. **Tax Benefit:** Under the Income Tax Act, premium paid is allowed as a deduction from the total income under section 80C.  
   (1) **Indemnifies loss** - Insurance restores people to their former financial position as if no loss has occurred. It helps them to remain financially secure without running into debt after a loss. It also helps business firms to carry on their normal business operations without interruption even after the loss occurs.  
   (2) **Reduces worries and fears** - Insurance helps in reducing anxieties and fears before and after the loss occurs, as it is known that the insurance company will compensate for the loss.
(3) **Makes available funds for investment:** Investments are the base for an economic development and mostly these investments are the results of the savings. An insurance company is a major instrument for mobilisation of the savings of people, which are thereafter canalised into investment for economic growth. Insurance provides the continuity in trade and commerce, by covering the risks that could retard the economy and thereby indirectly helps the economy to grow.

(4) **Provides employment to a large number of people:** Insurance industry offers regular full time employment to a large number of people in the country. Besides, a number of agents, professionals, etc. are also engaged by the industry to render professional services.

(5) **Educates people about loss prevention:** Insurance companies also engage themselves in educating people about loss prevention. In our country, the GIC has created the loss prevention association of India to promote and propagate loss prevention.

(6) **Insurance enhances credit worthiness:** Insurance policies are often offered as collateral security for credit as well.

(7) **Social benefits:** Above all, we derive social benefits when people with peaceful minds carry on their operations properly and in a better way. Thus, insurance’s contribution to the economy as a whole is valuable as it avoids economic hardships to people.
Principles of Insurance:

(1) **Indemnity:** A contract of insurance is a contract of indemnity. Indemnity means that the insured in case of loss against which the policy has been insured, shall be paid the actual amount of loss not exceeding the amount of the policy, i.e. he/she shall be fully indemnified. The purpose of contract of insurance is to place the insured in the same financial position, as he was before the loss. Suppose, a person insured his/her factory for Rs.20 lakh against fire, the factory is partially burnt and it is estimated that a sum of Rs.10 lakh will be required to restore it to the original condition. The insurer is liable to pay Rs.10 lakh only. The exceptions to the rule are found in Personal Accident policies, Agreed Value policies in marine insurance and Valuables and Reinstatement policies in Engineering insurance. These are also contracts of indemnity but by a special application of the principle, the amount of indemnity is decided at the time of entering into the contract itself. In certain forms of insurance, the principle of indemnity is modified to apply. For example, in marine or fire insurance, sometimes, certain profit margin that would have earned in the absence of the event, is also included in the loss. Under life insurance, the insurer is required to pay the fixed amount in the event of death or on the expiry of the period of the policy. Thus,
the contract of life insurance is not insurance as such but it is an assurance. This is due to the reason that life cannot be indemnified, i.e., the life of a person cannot be valued in terms of money and therefore the question of compensation of actual loss does not arise. Thus, a contract of life insurance is a contract of guarantee.

(2) **Utmost good faith:** The doctrine of utmost good faith applies to all forms of insurance. Both parties of the insurance contract must be of the same mind at the time of the contract. There should not be any fraud, non-disclosure or misrepresentation concerning the material facts. An insurance contract is a contract of absolute good faith where both parties of the contract must disclose all the material facts truly and fully as insurance shifts risk from one party to another. As in insurance, insured knows more about the risks than the insurer, so, there must be utmost good faith and mutual confidence between insured and insurer. For instance, if a person suffers from a serious invisible disease but does not disclose this fact while getting his/her life insured, the insurance company can avoid the contract. Similarly, the insurer must exercise the same good faith in disclosing the scope of the insurance, which he/she is prepared to grant. Breach of good faith renders the contract voidable *initio* at the discretion of the aggrieved party. A material fact is a fact which would influence the mind of an
insurer in deciding whether he/she should accept the risk, on what terms and what premium he/she should charge. The utmost good faith says that all material facts should be disclosed in true and full form. It means that the facts should be disclosed in that form in which they really exist. There should be no false statement and no half-truth nor any silence on the material facts. What is a material fact depends upon the circumstances of the particular case.

(3) **Insurable interest:** For an insurance contract to be valid, the insured must have an insurable interest in the subject matter of insurance. It means that the insured must have an actual pecuniary interest. The insured must be so situated with regard to the thing insured that he/she would have benefits by its existence and loss from its destruction. For instance, a person has insurable interest in his/her life or in the life of the spouse; but, he/she has no insurable interest in the life of a stranger. The owner of a building has absolute insurance interest. If this building is financed by banks then financiers, too, have their interest in the property, but is limited to the extent of their financial commitment only. The insurable interest must exist both at the time of the proposal and at the time of claims; but, in case of life insurance, insurable interest must exist only when the policy is taken. The essentials of a valid insurable interest are the following:
(a) There must be a subject matter to be insured.
(b) The insured should have monetary relationship with the subject matter.
(c) The relationship between the insured and the subject matter should be recognised by law i.e. there should not be any illegal relationship between the insured and the subject matter.
(d) The financial relationship between the insured and the subject matter should be such that the insured is financially benefited by its existence or survival and will suffer economic loss at the destruction or death of the subject matter. The subject matter is life in life insurance, property and goods in property insurance, liability and adventure in general insurance. Insurable interest is essentially a pecuniary interest, no emotional or sentimental loss, like an expectation or an anxiety, could be the ground of the insurable interest.

(4) **Proximate cause:** The rule of proximate cause says that the cause of the loss must be proximate or immediate and not remote. If the proximate cause of the loss is a risk insured against, the insured can recover. If the risk insured is the outcome of a remote cause, which is not insured against, then the insurer is not bound to pay compensation. Proximate cause means the active efficient cause that sets in motion a chain of events, which brings about a result, without intervention of any force started and working actively from a new and independent
source. That means proximate cause is the cause which in a natural and unbroken series of events is responsible for a loss or damage. If there is a single cause of the loss, the cause will be proximate cause and if the cause of loss was insured, insurer will have to indemnify the loss. When a loss has been brought about by two or more causes, the question arise as to which is the proximate cause. If the causes occurred in form of chain, they have to be observed seriously. For the policy to cover the loss must have an insured peril which must occur in the chain of causation that links the proximate cause with the loss. The proximate cause is not necessarily, the cause that was nearest to the damage either in time or in place, but is rather the cause that was actually responsible for the loss.

(5) Subrogation: The doctrine of subrogation is a corollary to the principle of indemnity and applies only to fire and marine insurance. According to it, when an insured has received full indemnity in respect of his/her loss, all rights and remedies which he/she has against a third person will pass on to the insurer. The insurer’s right of subrogation arises only when he has paid for the loss and this right extends only to the rights and remedies available to the insured in respect of the thing to which the contract of insurance relates. If the insured is in a position to recover the loss in full or in part from a third party due to whose negligence the loss may have been occurred, his/her right of
recovery is subrogated (substituted) to the insurer on settlement of the claim. The insurers, thereafter, can recover the claim from the third party or in case the lost property is recovered or the damaged property fetches any value, the insurer will be its owner. Suppose, a house is insured for Rs.2 lakh against fire, the house is damaged by fire and the insurer pays the full value of Rs. 2 lakh to the insured. Later on, the damaged house is sold for Rs.20,000. The insurer is entitled to receive the sum of Rs. 20,000.

(6) Contribution: When an insured obtains more than one policy on one risk, the principle of contribution comes into play. The aim of contribution is to distribute the actual amount of loss among the different insurers who are liable for the same risk under different policies in respect of the same subject matter. That means the insured may effect more than policy to cover the same risk, he/she cannot recover in total more than a full indemnity (sum insured). In other words, the right of contribution arises when
(a) there are different policies which relate to the same subject matter
(b) the policies cover the same peril which caused the loss
(c) all the policies are in force at the time of the loss and
(d) one of the insurers has paid to the insured more than his/her share of the loss. However, the principle of contribution does not apply to life insurance.

(7) **Mitigation of loss:** In the event of a mishap, the insured must take all possible steps to mitigate or minimize the loss to the subject matter of insurance. He/she should act in the same manner in which he/she would have acted in the absence of the insurance cover. This means that it is the duty of the insured to make a reasonable effort and take all available precautions to save the insured property.

(8) **Warranties:** There are certain conditions and promises in the insurance contract which are called warranties. Warranties which are mentioned in the policy are called express warranties. There are certain warranties which are not mentioned in the policy. These warranties are called implied warranties. Warranties, which are answers to the questions, are called affirmative warranties. The warranties fulfilling certain conditions or promises are called promissory warranties. Warranty is a very important condition in the insurance contract which is to be fulfilled by the insured. On breach of warranty, the insurer becomes free from his/her liability. Therefore, insured must fulfill the condition and promises during the insurance contract whether it is important or not in connection
with the risk. If warranties are not followed, the other party may cancel the contract whether risk has occurred or not. However, when the warranty is declared illegal and there is no reverse effect on the contract, the warranty can be waived.

**Objective of Life Insurance:**

The objectives of a life insurance company are following.
1. Spread Life Insurance widely, including the rural areas and among the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death.
2. Maximize mobilization of people’s savings by marking insurance-linked savings adequately attractive.
3. Bear in mind, while investing the funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole, the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligation of attractive return.
4. Conduct business with utmost economy and with full realization that the moneys belong to the policyholders.
5. Act as trustees of the insured public in their individual and collective capacities.
6. Meet the various life insurance needs of the community that would arise in the changing social and economic environment.

7. Involve all people working in the corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.

8. Promote amongst all agents and employees of the corporation, a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of corporate objectives.¹⁰

**Nationalization of LIC:**

In 1955, the Indian parliamentarians raised the matter of insurance fraud by owners of the private insurance companies. In the ensuing investigations, one of India's wealthiest businessmen, owner of a newspaper, was sent to prison for two years. Eventually, they passed the Life Insurance of India Act on June 19, 1956. The Life Insurance Corporation of India was created on September 1, 1956, by consolidating the life insurance business of 245 private life insurers and other entities offering life insurance services. Nationalization of the life insurance policy framework for extending state control over at least seventeen sectors of the economy, including the life
insurance. The company began operations with 5 zonal offices, 33 divisional offices and 212 branch offices.

The life insurance industry was nationalized under the Life Insurance Corporation (LIC) Act of India. In some ways, the LIC has become very successful. (1) Despite being a monopoly, it has some 60-70 million policyholders. Given that the Indian middle-class is around 250-300 million, the LIC has managed to capture some 30 odd percent of it. (2) The level of customer satisfaction is high for the LIC (one of the findings of the Malhotra Committee, see below). This is somewhat surprising given the frequent delays in claim settlement. (3) Market penetration in the rural areas has grown substantially. Around 48% of the customers of the LIC are from rural and semi-urban areas. This probably would not have happened had the charter of the LIC not specifically set out the goal of serving the rural areas. One *exogenous* factor has helped the LIC to grow rapidly in recent years: is a high saving rate in India. Even though the saving rate is high in India (compared with other countries with a similar level of development), Indians exhibit high degree of risk aversion. Thus, nearly half of the investments are in physical assets (like property and gold). Around twenty three percent are in (low yielding but safe) bank deposits. In addition, some 1.3 percent of the GDP are in life insurance related savings vehicles. This figure has doubled between 1985 and 1995.
Role of Information Technology in LIC:

Information technology, which has lessened the distances from miles too few yards. Communication gap has also reduced. LIC has been able to win the confidence and faith of crore of its policyholders due to implementation of the Information Technology. Today, each and every branch is fully computerized. Now, the policyholder is not bound to cover long distances to get his/her premiums deposit or to get his/her payments; he/she is not bound to go to the institution to fill long forms. Just by click of the buttons he/she can get information and do the correspondence while sitting at home without any expense. The Corporation is the first to introduce such a latest and advanced form of Information Technology to both its employees as well as to the policyholders. Recently, implementation of the LAN, MAN networking the LIC has won the hearts of the policyholders. The Life Insurance Corporation of India is a pioneer financial institution in leveraging Information Technology as its front line tool to improve its overall efficiency in all areas of its activities. Today, it is one of the largest users of Information Technology in terms of hardware and in-house developed software. It has the largest dedicated network among all the organizations in the country and has connected about 1,500 branches all over India through
Metro Area Network and Wide Area Network. For better and prompt customer servicing, LIC has a multi channel approach of using Information Technology, deriving the optimum benefits of the latest technological advances.

1. Programs: All the 2,048 branches are equipped with in-house developed programs covering all policy servicing aspects to give prompt computerized services from new policy introduction, acceptance of renewal premiums, revivals, loans, etc. to final claim settlements. The ‘Green Channel’ is for on the spot completion and the single window provides for faster and better decision making; and, offering instant and the latest information at all the levels.

2. Networking: LIC’s wide area network covers 100 Divisional Offices connecting all the 1,500 branches through a Metro Area Networking. It is expected to cover all the remaining branches by the end of this year. This helps the customer to pay his/her insurance premium in any of the branches connected to the network. The customer can get a status report on his/her policies in these branches as well as the quotations for revival of their lapsed policies, loans, surrenders.

3. Online premium payments: LIC has tied up with some banks and service providers to offer an online premium collection facility to its customers in selected cities. It is
intended to extend this facility to all the cities covered under the network. For this, one can log on to website: www.licindia.com

4. **Internet Activities:** It has the following benefits for the customers:
   a) **Product Information:** LIC’s various new and existing plans, pension plans, group schemes and capital market linked schemes.
   b) **Services:** Ready Reckoner for premium, online calculation of income tax, installment premiums and policy bonus. Information about Grievance Redressal machinery, online forms, complaint/request mailer, postal and e-mail addresses of policies, offices, and telephone numbers of various IVRS links for the latest policy positions, press releases and News Section.
   c) **Links for online premium payment services.**
   d) **Links to subsidiary companies.**

5. **Kiosks:** LIC has installed 150 selected kiosks at 150 locations to give policy status reports and details about insurance plans, servicing aspects, etc.

6. **IVRS:** This is an Interactive Voice Response System in 59 urban centers. This is a menu driven service. Customers can get selected information regarding their policies by calling the prescribed telephone numbers. These numbers are advertised
frequently and are also available on LIC’s website: www.licindia.com

7. INFO CENTRE: LIC has commissioned its first policy service info centre at Mumbai in March 2002. This centre is equipped with state of the art technology and manned by trained persons. People desiring any information regarding their life insurance policies can get the same by calling the info centre telephone number. Such centers are being installed in Delhi, Kolkata, Hyderabad, Chennai, Bangalore, Ahmadabad and Pune.

Advantages of Information Technology:
1. Information Technology has served as the best tool to provide speedy and satisfactory service to customers. When in 60’s punching cards were used, the information used to be punched and could be lost sometimes due to destruction of the cards. Moreover, the storage capacity was very limited compared to today.
2. Moreover, it has become easier for the policyholders to get their policy related information within a few seconds as compared to the past, when there were very large size ledgers to record the transactions on which sometimes there was no control.
3. It has become very easy to go through the discrepancies in the whole infrastructure and the same get rectified within a short time with no difficulty, which was not possible earlier.

**Various Schemes of Life Insurance:**

The various schemes are classified in four groups, that is children’s plans, old age plans, family plans, special plans. **Children’s plans are** : Jeevan Sukanya, Jeevan Anurang, Komal Jeevan, Children’s Deferred Endowment Assurance Plan, Marriage Endowment or Educational Annuity Plan, Jeevan Kishore, Jeevan Chhaya, Child Career Plans and Children’s Money Back Plan, etc. **Family plans are** : the endowment assurance policies. The endowment assurance policy - limited payment, Jeevan Mitra (Double Cover endowment plan), Jeevan Mitra (Triple cover endowment plan), Jeevan Anand, New Janraksha Plan, Jeevan Amrit, Jeevan Shree-I, Jeevan Pramukh. The money back policy- 20 years, the money back policy - 25 years, Jeevan Surabhi -15 years, Jeevan Surabhi - 20 years, Jeevan Surbhi - 25 years, Bima Bachat, the whole life policy limited payment, the whole life policy, single premium, Jeevan Anand, Jeevan Tarang two year temporary assurance policy, the convertible term assurance policy, Anmol Jeevan, Jeevan Sathi and Mortgage redemption etc. **Special plan are** : Jeevan Sanchay, New Bimas Gold, Bima Nivesh 2005, Jeevan Saral,
Jeevan Madhur and Jeevan Bharati, etc. **Old plans are**: Jeevan Surakha, Jeevan Nidhi, Jeevan Akshay, New Jeevan Dhara, New Jeevan Suraksha, Jeevan Aadhar, and Jeevan Vishwas etc.\(^\text{11}\)

**Life Insurance Vs. Other Savings:**

**Contract of Insurance:** A contract of insurance is a contract of utmost good faith technically known as uberrima fides. The doctrine of disclosing all material facts is embodied in this important principle, which applies to all forms of insurance. At the time of taking a policy, the policyholder should ensure that all questions in the proposal form are correctly answered. Any misrepresentation, non-disclosure or fraud in any document leading to the acceptance of the risk would render the insurance contract null and void.

**Protection:** Savings through life insurance guarantee full protection against risk of death of the saver. Also, in case of demise, life insurance assures payment of the entire amount assured (with bonuses wherever applicable) whereas in other savings schemes, only the amount saved (with interest) is payable.
**Aid to thrift:** Life insurance encourages 'thrift'. It allows long-term savings since payments can be made effortlessly because of the 'easy installment' facility built into the scheme. (Premium payment for insurance is monthly, quarterly, half yearly or yearly). For example; the Salary Saving Scheme, popularly known as the SSS, provides a convenient method of paying premium each month by deduction from one's salary. In this case, the employer directly pays the deducted premium to LIC. The Salary Saving Scheme is ideal for any institution or establishment subject to specified terms and conditions.

**Liquidity:** In case of insurance, it is easy to acquire loans on the sole security of any policy that has acquired loan value. Besides, a life insurance policy is also generally accepted as security, even for a commercial loan.

**Tax Relief:** Life Insurance is the best way to enjoy tax deductions on income tax and wealth tax. This is available for amounts paid by way of premium for life insurance subject to income tax rates in force. Assesses can also avail of provisions in the law for tax relief. In such cases, the assured, in effect, pays a lower premium for insurance than otherwise.
Money when needed: A policy that has a suitable insurance plan or a combination of different plans can be effectively used to meet certain monetary needs that may arise from time-to-time. Children's education, start-in-life or marriage provision or even periodical needs for cash over a stretch of time can be less stressful with the help of these policies. Alternatively, policy money can be made available at the time of one's retirement from service and used for any specific purpose, such as, purchase of a house or for other investments. Also, loans are granted to policyholders for house building or for purchase of flats (subject to certain conditions).

Who can buy a policy? : Any person who has attained majority and is eligible to enter into a valid contract can insure himself/herself and those in whom he/she has insurable interest. Policies can also be taken, subject to certain conditions, on the life of one's spouse or children. While underwriting proposals, certain factors such as the policyholder’s state of health, the proponent's income and other relevant factors are considered by the Corporation.

Insurance for Women: - Prior to nationalisation (1956), many private insurance companies would offer insurance to female lives with some extra premium or on restrictive conditions. However, after nationalisation of the life insurance, the terms under which life insurance is granted to female lives have been
reviewed from time-to-time. At present, women who work and earn an income are treated at par with men. In other cases, a restrictive clause is imposed, only if the age of the female is up to 30 years and if she does not have an income attracting Income Tax.

**Medical and Non-Medical Schemes:** Life insurance is normally offered after a medical examination of the life to be assured. However, to facilitate greater spread of insurance and also to avoid inconvenience, LIC has been extending insurance cover without any medical examinations, subject to certain conditions.

**With Profit and Without Profit Plans:** An insurance policy can be 'with' or 'without' profit. In the former, bonuses disclosed, if any, after periodical valuations are allotted to the policy and are payable along with the contracted amount. In 'without' profit plan, the contracted amount is paid without any addition. The premium rate charged for a 'with' profit policy is therefore higher than for a 'without' profit policy.

**Keyman Insurance:** Keyman insurance is taken by a business firm on the life of key employee(s) to protect the firm against financial losses, which may occur due to the premature demise of the Keyman.¹²
Organisational structure of LIC of India:

The member of the life insurance corporation of India not more than 16 are appointed by the Central Government, one of which is appointed as the Chairman. The Chairman is a full time employee. The Chief Executive Managing Director is a full time employee of the Life Insurance Corporation and is also appointed by the highest decision making body of the Life Insurance Corporation of India, similar to the Board of Directors of the companies. The life insurance has a four-tier structure. The central office at Mumbai, Seven Zonal Offices, Hundred Divisional Offices and over two Thousand Branch Offices in India. Foreign branches report directly to the central office. All offices have clearly demarcated geographical areas of operations except the branch offices in big cities, which have common areas. Almost 90% of the activities relating to the policy holders are done at the level of the branch offices. Investments are done by the central office.

The organizational structure of the Life Insurance Corporation of India had undergone substantial changes since 1981. Until then, the Branch Offices concentrated on procuring new business. After the proposals were registered, they were sent to a Divisional Office for underwriting and issue of policies. After the issue of policies, except for the limited function of collecting premiums, all the services to the policyholders were provided by the Divisional Office. Since the
Divisional Offices were few as compared to the Branch Offices, service to the policyholders proved to be costly and time consuming and not efficient. After 1981, the Branch Offices were entrusted with the task of providing all services from acceptance of proposals to the payment of claims. A policyholder or an agent does not have to go to the Divisional Office; most of the work is done at the Branch Office itself. It has the responsibility to develop the life assurance business in its area. It is the basic unit of growth and profit.13

Current status of LIC of India:

Over its existence of around 50 years, Life Insurance Corporation of India, which commanded of soliciting and selling life insurance in India, created huge surpluses; and, contributed around 7% of India's GDP in 2006. The Corporation, which started its business with around 300 offices, 5.6 million policies and a corpus of INR 459 million (US$ 92 million as per the 1959 exchange rate of roughly Rs. 5 for a US$, has grown to 25,000 servicing around 180 million policies and a corpus of over INR 8 trillion (US$ 173 billion). The organization now comprises 2,048 branches, 109 divisional offices and 8 zonal offices, and employs over 1,002,149 agents. The corporate Office of LIC is in Mumbai. It also operates in 12 other countries, primarily to cater to the needs of the Non-
Resident Indians. With the change in the India's economic philosophy from the early 1990s, and the subsequent relaxation of state control over several sectors of the economy, the monopolistic position of the Life Insurance Corporation of India is diluted, and it has to compete with a number of other corporate entities, Indian as well as transnational Life Insurance brands. However, it still manages to be the largest player in the Indian market, with the lion's share of 55%. The recent Economic Times Brand Equity Survey rated LIC as the No. 1 Service Brand of the Country. In the financial year 2006-07, Life Insurance Corporation of India's number of policy holders is said to have crossed a whopping 200 million.

**Subsidiaries:**

LIC owns the following subsidiaries:

- **Life Insurance Corporation of India International:** This is a joint venture offshore company promoted by LIC which commenced operations in July, 1989, with the objectives of offering US$ denominated policies to cater to the insurance needs of and providing insurance services to holders of the LIC policies currently residing in the Gulf. LIC International operates in all countries.

- **LIC Nepal:** A joint venture company formed in September 2001 with the Vishal Group of Industries with a capital
base of Rs.250mn. It is one of the largest capitalized insurance companies of Nepal. It has joint share between LIC of India (55%) Vishal Group (25%) and has a public participation to the extent o 20%.

- LIC Lanka: A joint venture company formed in 2003 with the Bartleet Group of Companies, it is one of the oldest and reliable institutions in Sri Lanka. The combined strengths of these two formidable companies has enabled LICL to emerge as the premier provider of Life Insurance in Sri Lanka. The Indian-based blue-chip also has offices in UK, Mauritius, Fiji, and in all Middle East countries.

- LIC Housing Finance: Incorporated on 19 June 1989, its main objective is to provide long term finance for construction or purchase of houses or apartments.

- LICHFL Care Homes: A wholly owned subsidiary of LIC Housing Finance, it builds and operates "Assisted Community Living Centres".

**Objectives of the Study:**

The present study is undertaken mainly to study the Evaluation of Performance of Life Insurance Corporation of India with special reference to the Aurangabad division. The principal objectives of the study are as follows.
1. To review the working of LIC in general, and Aurangabad division, in particular.
2. To evaluate the various schemes of LIC of India and to suggest some measures for promotion of its business.
3. To examine LIC’s role in rural areas.
4. To study the benefits derived by the policyholders of life insurance policies and the grievances arising out of the policies and to suggest remedies to settle them.
5. To study the impact of privatization on the business of LIC of India and to recommend ways and means to succeed in competition.

Scope of the study:

The scope of the study lies in finding out the perception of the LIC customers in the Aurangabad Division through responses taken from 300 customers during the period of 1997-98 to 2006-07. The present study, analysis, findings and suggestions proposed by the present researcher is expected to be of immense use for future researchers with similar studies in insurance market.

Significance of the study:

High quality insurance products with quality service both in terms of international standards and competitiveness have entered our country. Customer satisfaction has emerged as
the key differentiator and defining attribute. The study is significant because, it brings out the differences in various parameters like awareness, service quality, problems faced and rationale behind investments in the products of life insurance companies. The study is significant also because it will help LIC to create a positive impact on its customers by working on its weaknesses which are likely to be identified through this study.

**Research Methodology:**

Being an evaluation of performance study of the public and private sectors, the author selected LIC of India from the public sector and some other insurance companies from the private sector. The study is based mainly on the primary data collected from the field. These have been collected through comprehensive interviews, schedules and discussions with the policyholders of the life insurance companies. The secondary data are collected from various articles, reports published in journals, magazines, publications and uploaded on the websites of IRDA, LIC and other companies.

1. **Research design:**

   The research is divided into two parts. The first part contains the information related to the level of awareness, services quality, problems faced by the insured and their
motives for investment. Analysis of this information would help to identify some measures required to address some of the problems.

2. Sample Selection:
   The present study is related to life insurance corporation of India in two districts of the Marathwada region under the Maharashtra state. These are Aurangabad and Osmanabad.

   The sample contains 300 respondents --- 150 from the Aurangabad district and 150 from the Osmanabad district. The researcher used the stratified random sampling technique for collecting the primary data. The population of Aurangabad division of LIC is divided into two strata (1) urban and (2) rural. An equal number of samples were drawn from each stratum.

3. Statistical tools and techniques used:
   Statistical tools like weighted averages, percentages, mean and standard deviation, etc. are used for analysis of the data. For the purpose of analyzing the awareness level, a two point rating scale is used. A two point and a three point rating scale is used to test the various aspects covering the awareness level, service quality and problems faced by the customers.

4. Statement of the Problem:
Policyholders’ satisfaction is the true differentiator for the success of any business and more so in the insurance business where the products are intangible, not perceived clearly. The four main aspects, i.e. awareness level, service quality, problems faced and rationale behind investment have to be known.

5. Limitations of the study:

In spite of every care taken on the part of the Researcher, there were certain limitations which could not be overcome. These are as follows.
* Some of the respondents were not fully responsive. They did not respond to all questions/queries.
* Sample size is limited to 300 policyholders only. Thus, the sample size may not adequately represent the whole market.
* The study period is limited to 10 years, from 1996-97 to 2006-07 only.
* The research study was confined to Aurangabad division.

Presentation of the study:

The present study consists of eight chapters.

The first Chapter is history of Life Insurance, Nationalization of Life Insurance, Meaning & definition of Life Insurance, Objective of Life Insurance, Importance of Life
Insurance, Progress of Life Insurance, Networking of Life Insurance, Insurance and various schemes of Life Insurance and Life Insurance Vs Other savings, Structure of Life Insurance Corporation of India. The Objective of the present study, Methodology adapted to study.

The second chapter presents the review of the current and relevant literature on the subject. The literature on Life Insurance Corporation of India is reviewed in this chapter.

The third chapter contains the progress of Life Insurance Corporation in general, and Aurangabad division, in particular, during the period from 1996-97 to 2006-2007.

The fourth chapter is on evaluation of the various schemes of Life Insurance Corporation of India. This chapter covers background, basic elements and insurance policies.

The fifth chapter describes the role of life insurance corporation of India in rural areas and recommendations for making them more effective.

The sixth chapter is on the policyholders’ benefits and grievances.

The seventh chapter describes impact of the privatization on LIC business. In this chapter globalization, history of LIC, changing scenario of LIC, Privatization of LIC, globalization and it’s impact on LIC, etc. have been briefly described.
The eighth chapter contains the conclusions based on the present research work. It also consists of the recommendation given for improving LIC performance.
Reference:
5. Ibid.
7. Bidve, Vimashastra, Kailash Publication Aurangabad, p.29